ALL CANADIAN FUNDS 14TH ANNUAL REPORT 1967

highlights of the year

Dividend Fund	December 31, 1967	December 31, 1966	% Change
Total net Assets	$108,051,565	$101,073,682	+ 6.90
Net asset value per share	10.14	8.62	+ 17.63
Net income	2,259,442	2,576,381	— 12.31
Gain on sales of investments	11,163,407	6,997,598	+ 59.53
Dividends per share	0.28	0.28	—
Compound Fund			
Total net Assets	97,807,501	91,873,183	+ 6.46
Net asset value per share	8.26	6.83	+ 20.94
Re-invested per share	0.223	0.215	+ 3.72

directors and officers

Directors of Capital Management Limited

W. J. Borrie
H. A. Hampson
J. R. Aikman
J. Houlding
N. B. Ivory
F. A. King
R. Letourneau
R. B. Love
P. B. Paine, Q.C.
I. A. Soutar
P. N. Thomson
W. I. M. Turner Jr.

Officers

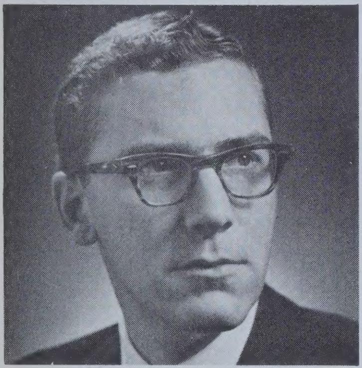
W. J. Borrie, Chairman
H. A. Hampson, President
P. N. Thomson, Vice-President
J. R. Aikman, Vice-President
P. A. Manson, Secretary
A. F. Knowles, Treasurer and Assistant-Secretary

Investment Committee

H. A. Hampson, Chairman
J. R. Aikman
N. B. Ivory
I. A. Soutar

to our shareholders

W. J. Borrie



H. A. Hampson

Chairman's Letter to Shareholders

The Funds completed another successful year in 1967. Assets expanded to a record year end total of $108 million and share values closed at peak levels. The gain in share values, in fact, lifted the compound growth rate for the Compound Fund above its long-term rate of 12%. Investment performances exceeded the Canadian market averages for the 7th year in succession and the Dow Jones Industrial Average of US common stock prices was also surpassed.

Notwithstanding these accomplishments, we were less than completely satisfied with our performance during the year. While one year can never be an adequate measure of achievement, our long term objectives of well above average growth of capital and income were barely attained in 1967. Extremely active and volatile markets necessitated rapid changes in the complexion of the portfolio. Also required, in our view, was a major shift into US securities to take advantage of the more abundant opportunities available in the American market. While this strategy was carried out successfully on balance, we did not assess accurately the full extent of the short term problems besetting a few of our larger Canadian investment holdings.

As we look into 1968, we cannot but be aware of the many problems which stem—directly or indirectly—from the war in Asia. We believe strongly, however, that most of the obvious problems are already substantially reflected in market prices, particularly in the stock prices of blue-chip companies which tend to suffer from the priorities imposed on a war economy, just as other industries, such as electronics and aerospace, tend to benefit.

On the positive side, we expect economic activity to remain at a good level, and believe that official measures to curb inflation may be more successful. Thus, we remain as constructive as ever about the potential for investment in well-selected common stocks, and emphasize—as we did last year—that temporary dips in markets almost invariably turn out to be highly rewarding buying opportunities for the Funds and their shareholders.

On behalf of Capital Management Limited,

H. A. Hampson
President

W. J. Borrie
Chairman

Montreal, February 2nd, 1968

all-canadian funds

Assumed $10,000 Investment in the All-Canadian Dividend and Compound Funds for various periods between January 1, 1955 and December 31, 1967

	Date of Investment Jan. 1	End of Period Dec. 31	Cost of Invest-ment	Initial Value after Acqui-sition Fees	Total Dividends if Taken in Cash	Dividend Fund Total Value End of Period	Compound Fund Total Value End of Period
13-Yr Period	1955	1967	$10,000.	$9,200.	$7,854.26	$24,810.64	$40,207.41
10-Yr Periods	1955	1964	$10,000.	$9,200.	$5,823.41	$20,430.86	$30,471.96
	1956	1965	$10,000.	$9,200.	$4,910.67	$18,520.26	$27,029.75
	1957	1966	$10,000.	$9,200.	$4,637.10	$15,988.71	$22,932.85
	1958	1967	$10,000.	$9,200.	$4,984.15	$19,976.01	$28,145.18
5-Yr Periods	1955	1959	$10,000.	$9,200.	$2,813.83	$14,876.60	$18,146.03
	1956	1960	$10,000.	$9,200.	$2,385.18	$10,342.48	$12,887.60
	1957	1961	$10,000.	$9,200.	$2,244.36	$11,889.52	$14,672.99
	1958	1962	$10,000.	$9,200.	$2,403.43	$12,076.23	$14,788.15
	1959	1963	$10,000.	$9,200.	$1,836.99	$10,660.55	$12,925.00
	1960	1964	$10,000.	$9,200.	$1,861.18	$12,634.87	$15,116.01
	1961	1965	$10,000.	$9,200.	$2,246.51	$16,474.42	$19,295.57
	1962	1966	$10,000.	$9,200.	$1,865.83	$12,371.92	$14,378.95
	1963	1967	$10,000.	$9,200.	$2,011.09	$15,218.27	$17,509.68

history of the funds

Dividend Fund

	Total Net Assets	Per Share Asset Value	Per Share Dividends
1954	1,273,598	3.76	0.03
1955	4,932,580	4.59	0.20
1956	7,389,820	4.96	0.22
1957	8,127,205	4.67	0.23
1958	18,366,233	6.11	0.25
1959	24,684,395	6.08	0.25
1960	21,395,944	5.16	0.24
1961	26,717,929	6.41	0.24
1962	31,982,462	6.13	0.24
1963	44,977,577	7.08	0.25
1964	67,267,718	8.35	0.26
1965	94,940,753	9.24	0.27
1966	101,073,682	8.62	0.28
1967	108,051,565	10.14	0.28

Compound Fund

	Total Net Assets	*Per Share Asset Value	*Per Share Reinvested Dividends
1954	437,415	1.89	0.016
1955	1,511,936	2.42	0.102
1956	2,300,952	2.74	0.118
1957	2,734,488	2.70	0.129
1958	8,486,349	3.68	0.147
1959	13,594,995	3.81	0.152
1960	11,624,385	3.39	0.153
1961	15,549,409	4.37	1.160
1962	22,919,787	4.34	0.165
1963	35,242,902	5.17	0.175
1964	57,587,417	6.26	0.187
1965	85,068,258	7.11	0.198
1966	91,873,183	6.83	0.215
1967	97,807,501	8.26	0.223

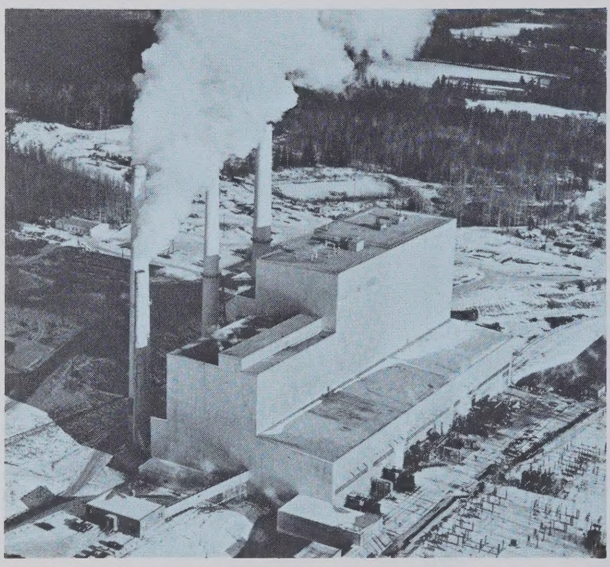
*Per share figures adjusted prior to December 31, 1963 due to 2 for 1 stock split April 1963.

Statement of Reinvested Income for the Period of Ten Years ended December 31, 1967

Year	Net income received and reinvested	Total cumulative reinvested income
Balance as at December 31, 1957		$ 273,537
1958	$ 243,590	517,127
1959	487,210	1,004,337
1960	537,540	1,541,877
1961	536,820	2,078,697
1962	732,480	2,811,177
1963	1,065,030	3,876,207
1964	1,492,460	5,368,667
1965	2,186,201	7,554,868
1966	2,790,970	10,345,838
1967	2,867,200	13,213,038

Note: As the net income consists entirely of dividends paid by All-Canadian Dividend Fund, which has been charged with all operating expenses, no operating expenses are paid directly by All-Canadian Compound Fund.

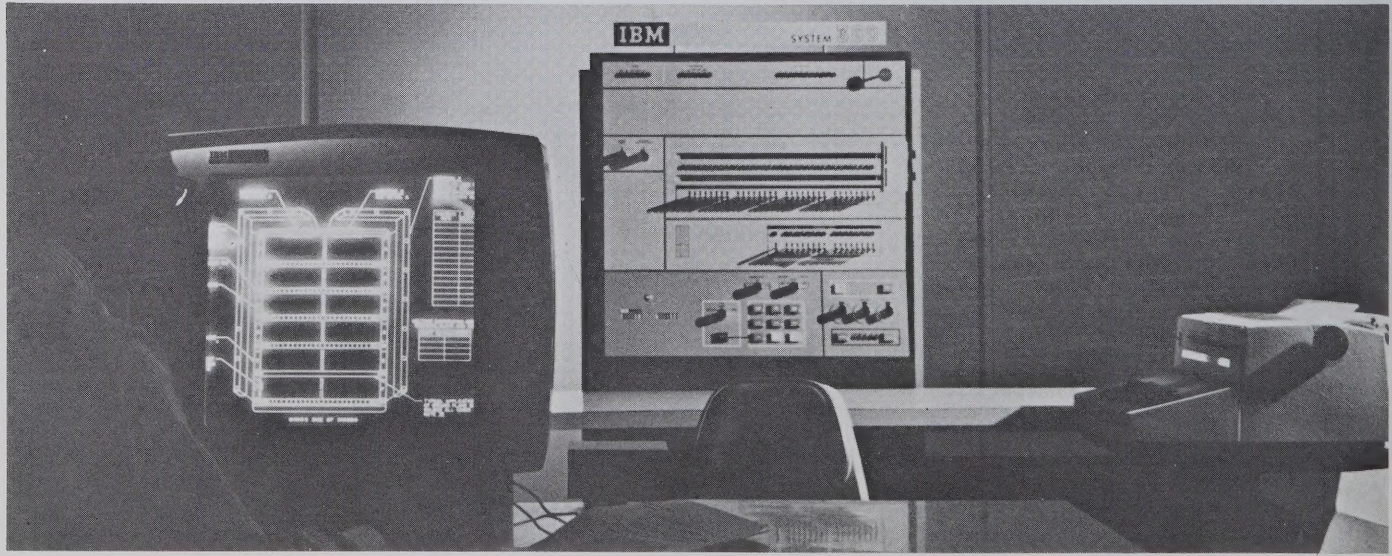
investment management report



The year 1967 saw a significant recovery in common stock prices in Canada and the United States. To illustrate, the Montreal Stock Exchange Composite Index gained 11.4% during the year, the Dow Jones Industrial Average of US common stock prices 15.2% and the more broadly representative Standard & Poor 500 Stock Index 20.1%.

The rise was, however, far from general and was characterized by wide divergences among leading companies and industry groups. IBM, for example, soared 68%, adding something like $14.3 billion to the market value of the enterprise. Other computer manufacturers, including Sperry Rand, registered even more spectacular gains. On the other hand, blue chip stocks like General Motors, American Telephone and US Steel showed little change in value. In Canada, this pattern was repeated — for example, International Nickel gained 32.8% while Consolidated Mining & Smelting lost 18.2% — but the major stocks generally had a less favourable trend than in the United States.

The better tone among American quality stocks was attributable to a number of factors, including the opportunities created by the sharper and broader sell-off in that market in the Fall of 1966. Cost and wage inflation, while serious, fell short of Canadian experience and although total corporate profits declined, a number of key industries managed to record outstanding profit improvement. In Canada, problems of over-capacity and temporarily depressed markets continued to plague such vital segments of the economy as the pulp and paper, chemical, steel and construction industries. At the same time, the more positive side effects of increased US defense production were a relatively minor factor in the Canadian economy.



In recognition of these developments, the Funds invested more heavily in US stocks as the year progressed. By the year end, the American content of the portfolio stood at 50.4%, as compared with 37.2% at the end of the previous year. Purchases of US stocks included office equipment, electronics, consumer goods, oils and certain conglomerate companies, while sales were made in US airlines, textiles, aerospace and insurance companies, among others, as well as in a number of Canadian companies in the aluminium, farm equipment, food chain and forest products industries.

While this transition towards a heavier representation of US securities was accomplished successfully, events have shown that it was not pursued fast enough or far enough; consequently, there were sizeable declines in the values of some large Canadian holdings like Massey-Ferguson and Dominion Textile. Reverses of this kind are inevitable from time to time and are often accentuated by the difficulty of disposing quickly of large blocks of stocks in the Canadian market in response to shorter term considerations. Fortunately, we appear to be faced with fewer such problems in 1968.

investment management report

Pursuit of our investment policies inevitably resulted in greater than usual portfolio activity in 1967. While we attempt to avoid portfolio turnover where possible, we found ourselves having to contend with highly volatile, unsettled markets as the speculative activity on which we commented in our 1966 annual report broadened to encompass almost every major industry group. To the extent that this increased volatility reflects the influence of professional investors, acting on reasoned grounds and supported by extensive investment research facilities, it is a healthy development. Few will deny, however, that in certain areas of the market, notably in "technology" stocks, speculation has reached dangerous proportions. These areas have generally been avoided in our investment policy, albeit at some cost to the short term performance of the Funds.

Despite the many and varied economic problems of which we are reminded every day — indeed, because of them — we are continuing to maintain a fairly heavy commitment to common stocks generally, the buying reserve amounting presently to a little more than 12% of portfolio assets. In this respect, we believe that the magnitude of current problems is largely, if not fully, reflected in the prices of good quality common stocks, many of which are available at reasonable prices in relation to their earnings prospects. We are influenced also by considerations of the potential impact on the stock market of a peaceful settlement in Vietnam since we believe this would release enormous pent-up forces of consumer demand and set the stage for a major new bull market in stocks, notwithstanding some economic dislocation in the short run.

Such considerations, we think, warrant a more constructive attitude towards investment in basic industries, as represented by the All-Canadian Dividend and Compound Funds, and we fully expect to attain our growth objectives in 1968.

investment changes

Sales

	Shares
Aetna Life Insurance Company	25,000
Air Reduction Company Inc.	80,000
Alcan Aluminum Limited	50,000
B.C. Forest Products Limited	93,000
Burlington Industries Inc.	77,600
Calgary Power Ltd.	12,900
Canada Iron Foundries Limited	25,000
Distiller's Corporation — Seagrams Limited	33,500
Dominion Foundries & Steel Ltd.	11,700
Eastern Airlines, Inc.	30,000
The Gillette Company	110,000
M. Loeb Limited	175,000
Massey-Ferguson Limited	75,000
Moore Corporation	54,700
New York Central Railroad	20,000
Northwest Airlines, Inc.	20,000
Reynolds Metals Company	50,000
Steinbergs Limited Class 'A'	129,950
Trans-World Airlines, Inc.	9,000
The Travelers Corporation	30,000
United Aircraft Corporation	50,000
Velcro Industries*	30,000
Westcoast Transmission Company Ltd.	68,600
Woodward Stores Limited, Class 'A'	18,400
Bonds & Short Term Securities	$13,450,000

*Formerly Velok Limited

Purchases

	Shares
Avco Corporation	65,000
Canadian Pacific Investments Ltd. 4¾% Conv. 'A' Pfd.	25,000
Ethyl Corporation	70,000
Ford Motor Company	10,000
General Electric Co.	10,000
The B.F. Goodrich Company	7,000
Gulf & Western Industries Inc.	50,000
Harvey Aluminum Incorporated	30,000
Imperial Oil Limited	25,000
International Business Machines Corporation	7,400
International Nickel Company of Canada Limited	7,000
Kerr Addison Mines Ltd.	36,400
Polaroid Corporation	21,000
Rank Organization Class 'A' Ordinary	186,000
Rank Organization 'Ordinary'	239,000
Schlumberger Ltd.	60,000
Shell Canada Limited 'A'	187,800
Southam Press Limited	14,000
Sperry Rand Corporation	9,500
Standard Oil Company (New Jersey)	50,000
Stokely Van Camp, Inc.	60,000
U.S. Smelting, Refining & Mining Co.	25,000

Other Changes

Air Reduction — Split 2 for 1	40,000
Gulf & Western Industries — 3% Stock Dividend	1,500
International Business Machines — 2½% Stock Dividend	100
Moore Corporation — Split 4 for 1	102,000
U.S. Smelting, Refining & Mining — 5% Stock Dividend	1,250

Distributor

All-Canadian Group Distributors Limited
1310 Greene Ave.
Montreal 6, Que.

Trustee

Montreal Trust Company
466 Howe St.
Vancouver 1, B.C.